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INTELLIGENCE MEMORANDUM

IRAN, THE SHAH, AND THE SOVIETS

JCS review completed.

DIRECTORATE OF INTELLIGENCE

State Dept. review
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
27 July 1966

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INTELLIGENCE MEMORANDUM*

Iran, the Shah, and the Soviets

Summary

The Shah's desire to demonstrate his independence in foreign affairs and his frequently expressed frustration with US policy have led him to an increasingly closer rapprochement with the USSR. His most recent move--a request that the USSR supply antiaircraft guns and surface-to-air missiles (SA-2s)--could mark a turning point in Iranian-US relations. The Soviets have not yet replied to the Iranian request, but the US Embassy in Moscow believes that they will welcome the opportunity to disrupt the US position in Iran. Because the Iranians will be hypersensitive to any real or imagined US retaliation, a Soviet-Iranian arms deal could have serious repercussions extending far beyond the immediate issue.

*Prepared by the Office of Current Intelligence and coordinated with the Office of Research and Reports and the Office of National Estimates.

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1. The Iranian parliament last fall authorized the Shah to spend up to \$200 million for military equipment to bolster defenses in the relatively vulnerable, oil-rich southwestern region of Iran. The Shah is convinced that Egyptian President Nasir and Iraqi leaders have designs on this territory, and his sense of urgency has been heightened by increasing deliveries of Soviet arms and aircraft to Egypt and Iraq. The report of the US Military Survey Team to Iran, submitted in May, in a general way supported the Shah's estimate of the equipment Iran would need to provide a credible deterrent to potential aggression or subversion in the Persian Gulf area.

2. The Shah initially expressed his desire to purchase the bulk of this new military equipment from the US, including F-4 all-weather aircraft, an air control and warning system for the Persian Gulf (Blue Shark), Hawk missiles, patrol craft, and M-60 tanks. During the past three months, however, he has expressed growing dissatisfaction with US prices, delivery dates, and interest rates--particularly for the F-4s and Hawks. (In fact, he has decided not to buy the Hawks.) He has pointed out that the oil consortium's decision to raise the oil off-take by only 9-11 percent, rather than by the 17.5 percent he had demanded, will cause a shortfall in Iranian foreign exchange, and thus make it imperative that Iran buy arms in markets which offer the most favorable terms. He is attracted by the 2.5 percent interest rate usually charged by the USSR and by the possibility that the credit could be repaid with natural gas, as will be done in the case of the \$290-million Soviet-supplied steel mill. The Shah has warned the US repeatedly that he might find it necessary to turn to other markets, including the Eastern bloc, if US terms were not favorable. He is now additionally irritated by the belief that officials in Washington are acting as though they had not been informed of his intentions.

3. The Shah has assured Ambassador Meyer that he will not purchase from the Soviets such "sensitive" equipment as MIGs, and that he will take steps to limit the opportunities for Soviet subversive activities. In fact, he has expressed the hope that an arms deal, combined with the steel-mill credit,

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will give the USSR a "stake" in Iran, and possibly impel Moscow to put a brake on the ambitions of Nasir.

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4. The Soviet ambassador in Tehran returned to Moscow for consultations almost two weeks ago, but the USSR has not yet responded to the Iranian request. [redacted]

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[redacted] The US Embassy in Moscow believes that the Soviets will be tempted by the opportunity to improve relations with Iran and might find the potential for disrupting US-Iranian relations attractive enough to obviate the need for tough political conditions, such as Iranian withdrawal from CENTO.

5. The US ambassador has told the Shah that the US is delighted by Iran's growing ability to stand on its own feet, and that the US Government would have no objection to Iranian military diversification in the direction of Western Europe--the Shah is thinking of purchasing patrol boats, a destroyer, and low-level antiaircraft missiles from the UK, as well as Mirage aircraft from the French if the US F-4s are not available on reasonable terms. (He can get the Mirages sooner and at half the price of the F-4s.) The ambassador has emphasized, however, that an Iranian-Soviet arms deal might cause an adverse reaction in the US--particularly in Congress--and could seriously endanger the \$400-million credit which has been extended to Iran. The presence of Soviet technicians in Iran could also raise security problems for sensitive US equipment.

6. US-Iranian relations seem almost certain to suffer if the Soviet arms deal is consummated. In the months after such an agreement, nearly any occurrence which appears to the hypersensitive Shah to indicate lack of US sympathy for Iran will be seized upon as evidence of US "retaliation," and the Shah has already warned the US ambassador not to begin any "political movement." Iranian officials, attuned to any nuance in the Shah's thinking, might well conclude that anti-Americanism is the politically advantageous theme to hit. Soviet Embassy officials have already been playing on this theme in discussions with high-level Iranians.

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Because the Shah can point out that the US had ample warning and plenty of time to meet his terms, the Iranian press may be encouraged to place full responsibility for any consequences on the US. The chances for a serious anti-US press campaign are therefore greatly increased.

7. Domestically, the Shah's image is likely to be enhanced by an arms deal with the Soviets. Certainly other aspects of his rapprochement with the USSR--particularly the steel mill agreement--have been popular among the politically aware in Iran. Several cabinet ministers have told the US ambassador that they are opposed to a Soviet arms deal, and some high-level military officers probably would regard it with disfavor. The Shah is so firmly in control, however, that such opposition would be likely to be muted, even if it did not disappear altogether, once the agreement becomes an accomplished fact.

8. The diversification of military supplies may prove, in the long run, to be more costly for Iran than the continued purchase of US arms which cost more initially. It will be expensive to integrate an air-defense system which may include US radar, Soviet SA-2s, British low-level antiaircraft missiles, and US, or possibly French, all-weather aircraft. There will be the additional task of training and coordinating three or four separate teams of maintenance personnel, a serious problem for a country like Iran, which has a shortage of skilled manpower. The performance of the SA-2s in North Vietnam indicates that they are not very effective against highly maneuverable tactical aircraft, such as the Egyptian and Iraqi MIG-21s against which the Shah wishes to defend Iran. The Shah has said, however, that he would rather have a poor system than none at all, and that the more effective US Hawks are too expensive for him to buy.

9. It is conceivable that the Shah will back away from a Soviet arms deal at the last minute. He did back off during final 1959 negotiations with the USSR on a nonaggression pact, and he apparently is annoyed by the delayed Soviet response. He told the US ambassador, however, that to cut the Soviets

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off now without hearing them out would be a virtual admission that he is a US "puppet." Also, given the Shah's obsession with proving himself independent, his strong domestic position, and his apparently genuine interest in saving foreign exchange, it is likely that he will buy some Soviet SA-2s if the offer is reasonably attractive.